

Tax Relief, UI Benefit Increases, Occupation Regulation Highlight Labor, Business Legislation

While resolution of the school-funding crisis overshadowed the 1998 Arizona legislative landscape, lawmakers still found time to attend to a number of meaningful business/economic development and labor/occupational issues. In fact, considering

NEWS ANALYSIS

the amount of time school funding occupied, it's somewhat amazing the amount of business and labor bills the Legislature enacted and shot down — and in some instances the governor vetoed. And in terms of action, the Legislature may have made

a good case for citizens to approve a November ballot measure to make it easier to increase elected officials' pay.

The Legislature enacted bills that gave businesses — particularly smaller companies — tax breaks in areas such as corporate income, unemployment insurance, property, and out-of-state sales. Business tax credits were also made available through the extension of the popular enterprise zone and research and development programs. Economically depressed areas of the state will particularly benefit from the three-year extension of the state enterprise zone law, which offers tax credits to businesses that hire low-income workers.



'98 BUSINESS AND LABOR LEGISLATION REVIEW

The lowering of unemployment taxes also benefited workers, who will receive a long-overdue "pay raise" with an increase in the maximum weekly benefit over the next

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Most Employers to Benefit from UI Tax Cuts

The Legislature this year put into law SB 1057, which modified three parts of the Employment Security law that impact an employer's unemployment insurance (UI) tax rate. The law reduces the unadjusted employer tax rates across almost all employer experience rated categories, reduces the required income rate across all fund ratio categories, and increases the maximum weekly benefit amount (MWBA) (also see article above).

The part of SB 1057 that lowers employer tax rates takes effect January 1, 1999. State law (ARS 27-730.3) establishes the required income rate (the UI tax rate on statewide aggregate taxable wages) for an ensuing tax year based on the fund ratio (i.e., the ratio of the UI trust fund balance as a proportion of 12 months of aggregate taxable wages). ARS 27-730.1 and ARS 27-730.2

TECHNICAL ANALYSIS

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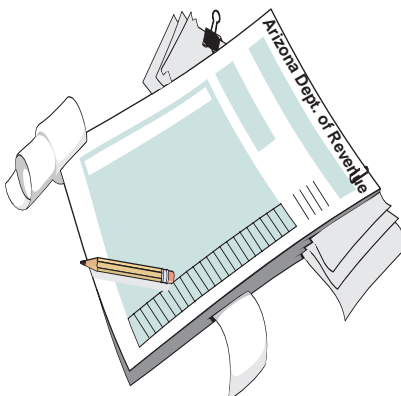
two years. And workers in a number of medical and technical occupations were given authority for expanded responsibilities, which ultimately could lead to improved pay, while several occupational boards had their powers expanded and rules rewritten to ensure certain medical professions are complying with state law.

But labor officials still have to be concerned that another year went by without any improvement in workers' compensation benefits, which have not increased in a decade. As pointed out in the spring issue of *AET*, labor and business interests have been unwilling to compromise in a number of areas affecting workers' comp. The head of the state AFL-CIO believes workers' comp will become a high priority issue in the next legislative session. "I think no matter who is elected governor, we're going to get consideration" in 1999, said Chuck Huggins, secretary-treasurer of the Arizona AFL-CIO.

Business

The Tax Relief Act of 1998 (SB 1007), which included both business and individual tax cuts, will give companies about \$90 million in tax relief over the next two years.¹ For business, probably the most important and visible tax issue was the state's corporate income tax rate, which at 9 percent was among the highest in the West. The argument for lowering the tax was that it put Arizona at a "competitive disadvantage" when trying to recruit businesses to the state.² But in reality, the corporate income tax issue might have been more about perception than real dollars.

Whether in recent years that has made a major difference in recruiting business is subject to debate. The fact is that companies look at a number of factors when deciding to relocate or expand, with one of the major issues being wages (where Arizona ranks about 30th). And Arizona has had one of the fastest growing economies in terms of jobs and per-



Business Taxes Lowered by \$90 Million Over Next Two Years

sonal income during the past several years.

The Legislature ended up lowering the state's rate to 8 percent, about three-quarters of a percentage point below the state with the next highest rate, California. At the same time, however, lawmakers eliminated the deduction of corporate income taxes. The net result of the two changes was a decrease in the effective rate by about one-quarter of a percentage point.

Another high priority tax issue this year was the repeal of the "sales throwback rules." Prior to the Legislature's doing away with the law this year, multistate corporations were required to pay Arizona tax on sales in states or counties where there was *no* income tax — hence the name "throwback." "The effect of the throwback rule was to increase the tax liabilities of multistate corporations shipping products from Arizona," wrote Terry Meland in an article in *Inside Tucson Business*.³ "Most states have realized that throwback rules are anti-export and anti-economic development and have either repealed or reduced the scope of their throwback rules," Meland wrote.⁴ This change is expected to help Arizona lure companies from

California, which still has a throwback law.⁵

Among other tax breaks given by the Legislature were two changes that will benefit Arizona businesses with multiple locations and vehicles. A modification made in the property depreciation rules will now allow businesses to deduct equipment costs up to \$50,000 *per location*, instead of a maximum of \$50,000 per business. Businesses such as convenience stores stand to benefit the most from this change. Also, a 15 percent reduction in the vehicle registration tax — which is usually thought of in individual terms — stands to benefit businesses with a fleet of vehicles. National rental agencies are likely to register more of their cars in Arizona, instead of states like Florida (which has a low registration fee), because of the lowering of the VLT. The Arizona Chamber of Commerce estimates that 15 percent of the VLT savings will go to businesses.⁶

A change that directly benefited both business and labor was a 10 percent cut in the state's unemployment insurance tax rates, which will amount to about \$45 million in savings over the next four years, said the Arizona Chamber of Commerce.⁷ The major reason for the UI tax cuts — the first since the law was enacted in the 1930s — was an overfunded benefit fund, which stood at about \$700 million at the beginning of 1998, far above the 18-month reserve required by the federal government.⁸ Labor benefited because economic-development officials believe the cuts will spur more job growth, and as part of the deal to cut rates, maximum weekly benefits will be increased \$20 to \$205 by July 1999. (For additional details, see "Most Employers to Benefit ...," front page, and "Labor" section of this article, p. 5).

In other legislation, HB 2427 eliminated the redundant requirement that public service and publicly-traded companies provide financial disclo-

sure documents with annual reports filed with the state Corporation Commission. This information was unnecessary because it was already on file with the Commission's Securities & Utilities Division, the Commission said.⁹ The law also spells out the process foreign corporations must go through "to apply for reinstatement after their grant of authority to transact business in this state has been revoked."¹⁰

Another issue that drew a lot of attention this session was regulation of excessive growth, commonly called "urban sprawl." Fearful that an anti-growth initiative — which would have required municipalities to set up growth boundaries — would make it on to the November ballot and, if passed, hurt the state's economy, legislators passed a competing plan called the "Growing Smarter Initiative." The Legislature's bill (HB 2361) would take a more limited approach, with its major provision requiring the state to provide \$220 million over 11 years in matching funds to cities and counties that want to buy state-owned land for long-term preservation. Also, if passed, it would forbid a state mandate to set up growth boundaries, thus superseding the anti-growth initiative's mandate. Ironically, however, the anti-growth initiative failed to secure enough signatures to make the November ballot. But legislators had no way of knowing that when they passed their plan.

Legislation was also passed to set up rules for the electric-power competition, allow counties to regulate adult businesses, repeal licenses for traveling salesmen, regulate child-care facilities and life-care providers and contracts, and make numerous changes to the state liquor license laws.

First it was the airlines, then the telephone system, and now electric utilities are going through deregulation and open competition in many states. And the passage of HB 2663 gives a blueprint for how Arizona

Table 1

Major Business/Economic-Development and Labor/Occupational Bills Passed in 1998 Legislative Session

Business/Economic-Development Legislation

- **SB 1007** — Tax Relief Act of 1998, which cut business and individual taxes by about \$180 million over the next two years. Among taxes reduced were the vehicle license tax (VLT), individual income tax, corporate income tax, and accelerated depreciation on class 3 (commercial and industrial) personal property
- **SB 1057** — Reduced Unemployment Insurance (UI) tax rates by 10 percent beginning in calendar year 1999 (see also "Labor/Occupational Legislation")
- **HB 2663** — Sets up rules for deregulation of most municipally-owned electric utilities, which dovetails with, but is not the same as, previous rules set up by the Arizona Corporation Commission for deregulation of publicly- and privately-owned electric utilities
- **HB 2346, HB 2365** — Extend Enterprise Zone and Research and Development Tax Credit laws

Labor/Occupational Legislation

- **SB 1057** — Increases maximum weekly UI benefit — from \$185 to \$195 beginning July 1, 1998; and from \$195 to \$205 beginning July 1, 1999
- Numerous bills expanding the power and rewriting the rules of governing occupational boards
- **HB 2585** — created a special fingerprinting division within the Department of Public Safety, with one of its primary functions being to conduct criminal-background checks of potential employees for various state government agencies

will phase in competition in the sale of electricity.

Beginning Jan. 1, 1999, most municipally-owned electric utilities (e.g., Salt River Project) in Arizona must allow at least 20 percent of their service territories (based on 1995 retail load figures) to be available for competition from electricity suppliers approved by the state Corporation Commission. This legislation dovetails with rules previously set up by the state Corporation Commission for privately- and publicly-owned utilities.

The law also provides that by the year 2001, all service areas for most municipally-, privately-, and publicly-owned utilities will be open for competition. The legislation provides

specifics on a number of issues affecting electric deregulation, including protecting consumers from fraud; setting up electric cooperatives to purchase, sell, and transmit electric energy; and establishing a Joint Legislative Study Committee in 2008 to determine the long-range effects of competition.¹¹

An entirely different type of regulatory power was given to counties by SB 1162. The law allows counties to "enact and enforce ordinances and regulate ... adult oriented businesses, including imposing "reasonable operating requirements" on already established businesses.¹² The bill also specifies hours these businesses may operate. In an unrelated bill, SB 1267 made life a little easier for travel-

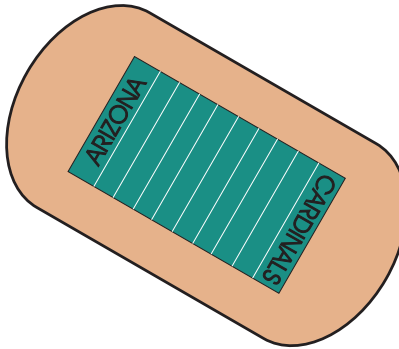
ing salespersons, or peddlers, by no longer requiring they obtain a business or occupation license from a county sheriff and pay a license fee.

Among business legislation that failed this session were two proposals that would have given some protection to the home-building industry — from lawsuits and impact fees. One bill would have restricted the ability of homeowners and homeowners associations to sue builders over alleged construction defects. The legislation appeared in several forms, but even a “watered-down” version — which would have allowed lawsuits, but required a dispute-resolution period — was unsuccessful.¹³ Another bill that was unsuccessful — passing in the House, but failing in the Senate — would have made it easier for builders to challenge impact fees in court. Builders have been concerned about the recent rise in impact fees — charged by municipalities to pay for services such as water and sewers, public safety, and libraries — in several east Valley cities, because it has forced developers to either raise the price of homes or cut their profit margin.

Economic Development

One of the top priorities for the business and economic-development community was the extension of the state’s enterprise zone and research and development tax-credit programs, for three years and five years, respectively. The former has been popular with business and labor officials, because it has not only helped open new businesses in blighted areas, but has created jobs for lower-income individuals.

Started in 1989, the enterprise-zone program allows businesses to deduct up to \$3,000 in income-tax credits for each eligible employee it hires in a designated zone. At least 35 percent of the workers must live in the designated enterprise area, and companies must pay a wage equal to or above the average wage in the county it’s lo-



Proposed Changes in Stadium District Law Failed

cated in and at least 50 percent of the cost of health care insurance. In addition, small manufacturers (fewer than 100 employees or sales less than \$4 million) and companies owned by minorities and women are eligible for other tax credits.

To qualify as an enterprise zone, an area must have an unemployment rate for the preceding two years of 150 percent of the statewide rate. Or, the poverty rate must be 150 percent of the statewide rate reported in the most recent U.S. census. One hundred and fifty percent of the statewide poverty rate is 23.55 percent. The zone must cover at least one-quarter square mile and its population must be at least 1,000. There are currently 20 enterprise zones in Arizona.

Getting an extension until Dec. 31, 2003, the research and development tax credit allows corporations to claim up to 20 percent of research and development expenses in excess of a base amount. In the first taxable year, there is a maximum credit of \$100,000; in the second year, a \$250,000 maximum; in the third year, \$400,000; and \$500,000 for each subsequent year. Unused credits can be carried forward for a maximum of 15 years.

The Legislature was looking toward the future when it passed a bill mak-

ing Arizona eligible to join a group of other Southwest states and northern Mexico states in a NAFTA-oriented compact. The group, to be called the Desert Pacific Economic Region (DPER), is modeled after an association formed in 1991 of northwestern U.S. states and two western Canadian provinces, called PNWER (Pacific Northwest Economic Region). The idea of the alliance is to allow industry associations and private-sector interests to form “working groups” to meet with governmental officials to address issues regarding the competitiveness of the region in the global marketplace.”¹⁴ The working groups deal with issues such as transportation, trade, finance, agriculture, telecommunications, and tourism.

The law will not go into effect until at least one other state designated in the bill agrees to join the group with Arizona. Other Southwest states designated are: Colorado, Utah, New Mexico and Nevada. The three states in Mexico are Chihuahua, Sinaloa, and Sonora.

On a festive note, the state Legislature passed a bill (HB 2442) doubling to about 25 the number of wine festivals each wine farm can have a year. Wine festivals are a significant source of revenue for the state’s wineries, most of which are concentrated (no pun intended) in the southeastern portion of the state.

Among legislation that economic-development officials sought, but were unsuccessful in obtaining, was a bill that would have allowed special stadium districts to recapture 100 percent of the sales taxes generated in those districts to help pay off stadium-financing bonds. For example, the stadium district recently formed by Mesa, Gilbert, and Queen Creek to build the \$1.7 billion Rio Salado Crossing project in Mesa would have been able to recapture all of the sales taxes collected in the district to help pay off stadium financing much quicker. This is provided that Mesa voters approve a quarter-cent tax to

Table 2

Maximum Weekly U.I. Benefit, Arizona and Selected States, Jan. 1998

State	Maximum Weekly Benefit	Rank
Massachusetts	\$573	1
Washington	384	5
Oregon	329	11
Colorado	297	19
Utah	284	22
Nevada	258	29
California	230	38
New Mexico	224	42
Arizona	185^(a)	48

Note: a) Benefit and rank prior to changes in law this year

Source: Nevada Department of Employment, Training and Rehabilitation, Research Analysis Bureau, April 1998

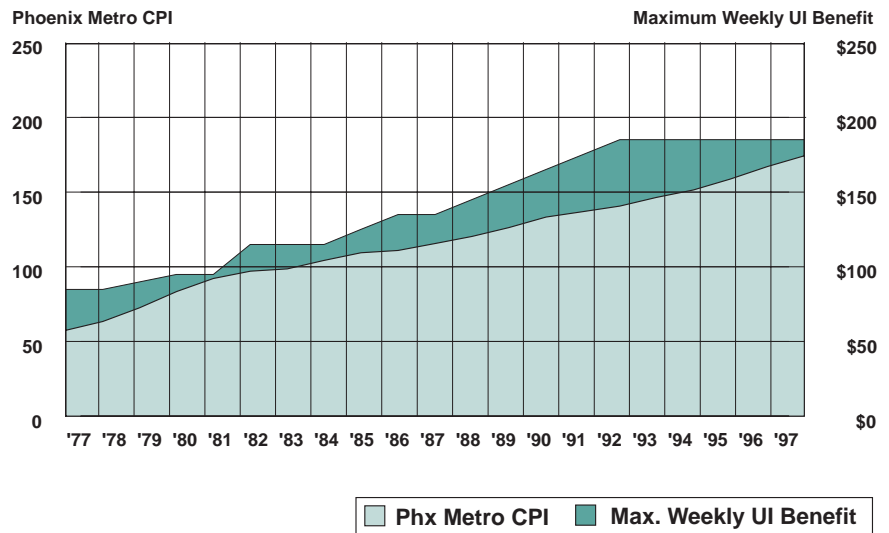
finance the infrastructure of the project. The major emphasis behind the Rio Salado project is a convention center and domed football stadium for the Arizona Cardinals professional football team. A year earlier, the state created the mechanism for allowing the formation of a stadium district, which requires at least two municipalities to join together and have voters approve plans.

Labor

From labor officials' perspective, the 1998 session turned out favorably, said the head of the state AFL-CIO, not because of legislation passed, but because of labor's ability to stymie legislation considered detrimental to workers, said Arizona AFL-CIO secretary-treasurer, Chuck Huggins. Probably the most important of these, Huggins said, was a bill (HB 2412) that would have required a union to seek approval from individual members before it could use members' dues for political activities, such as lobbying. The bill was tai-

Figure 1

Phoenix Metro Consumer Price Index and Arizona Maximum Weekly Unemployment Insurance Benefit, 1977-'97



Source: Arizona Dept. of Economic Security; and Arizona State University, College of Business, Center for Business Research

lored after a recently defeated California initiative that would have implemented similar limitations.

On the other hand, the most important piece of successful legislation that labor backed this session was the increase in unemployment insurance benefits. The bill (SB 1057), which also decreased employers' UI taxes (see above, related story), calls for an increase in the maximum weekly benefit by \$20 over the next two years. Starting in July, the maximum benefit is raised to \$195 a week and that will go to \$205 a week in July 1999. Despite the increase, Arizona's maximum weekly benefit will still rank near the bottom for all states when it's all said and done (see Table 2).

At the beginning of 1998, Arizona ranked 48th among all states and can only move into a tie for 45th in 1999, provided that none of the states directly ahead of it increase their maximum weekly benefit.¹⁵ The UI benefit increase is the first in Arizona in about five years, despite the fact

that Arizona ranked 21st in UI trust fund balance as of last September 30, with \$726.8 million. The state's strong economy and low unemployment rate have helped keep the outflow of UI trust funds to a minimum.

Among other successful pieces of legislation affecting labor were the expansion of workers' comp benefits to off-duty policemen and firefighters, and a bill that extends the time miners can work underground during a 24-hour period. In addition, the Legislature set in motion a plan to upgrade state workers' salaries and put an initiative on the November ballot that, if passed, could make it easier to raise legislators' salaries.

The expansion of workers' comp benefits came about because of highly publicized accidents involving two off-duty police officers who were killed (driving to or from work) by drunk drivers. "Because neither officer was on his scheduled work shift ... their families were denied workers' compensation benefits" — which resulted in a

significant public outcry to change current workers' comp regulations.¹⁶ The passage of SB 1077 makes all peace officers and firefighters eligible for workers' comp if injured or killed while traveling directly to or from work. In addition, children and spouses of any peace officers, fire fighters or emergency medical technicians killed in this manner are qualified for full tuition waivers at state universities and community colleges.

HB 2571 allows mining companies to use underground miners for longer periods than law currently allows, provided that a miner's collective-bargaining agreement approves it, but with one caveat — in no event can a miner work longer than 12 hours in any 24-hour period. The law slightly amends a bill passed a few years ago that put tighter restrictions on the amount of time miners could work underground because of the extreme heat, which can lead to accidents and other health concerns.

Pay for Arizona government employees, which ranks near the bottom for all states, took center stage this session. As originally introduced, SB 1354 would have included a \$330 million, five-year plan to upgrade salaries of the state's 80,000 employees (including universities). But when the bill passed, the specific funding portion of the bill was left out and replaced with a statement that said it was the Legislature's "intent" to bring state employees' compensation (salaries and benefits) within 5 percent of private-sector compensation by the year 2003.

Finally, among labor legislation that was successful, House Concurrent Resolution 2008 puts a referendum on the November ballot that would amend the state's constitution "to eliminate the requirement for voter approval for increasing legislator's salaries," which have not been raised in nearly two decades.¹⁷ In its place would be a state Salary Commission that would recommend salary

Among occupational bills that failed was legislation that would have created a state license for real estate inspectors, who would have been overseen by the state Registrar of Contractors.

changes every odd year, not only for legislators, but for other elected offices. Salary recommendations would go into effect unless they are referred to the voters by the Legislature or a petition drive.

Concerning pro-worker legislation that failed was an amendment to a bill that would have given job protection for gay state government workers.

Occupations, Professions

The theme that ran through legislation affecting occupations in this session was either expanding the scope of practice for certain medical occupations or increasing the authority of occupational boards to investigate potential unethical or illegal activity. In addition, several related bills were passed that increase the scrutiny of teachers' and home health-care workers' and officials' backgrounds.

There were about a dozen bills that made an assortment of changes to medical professions or their regulating boards, with most dealing with granting expanded supervisory authority to occupational boards. But there were also instances where regulation of occupations or expansion of their authority was troublesome enough for those being regulated or the governor, that the legislation was either killed or vetoed.

Among occupations where new legislation increased authority were medical assistants, osteopathic examiners, respiratory care examiners, phy-

sician assistants, and chiropractors. A bill (SB 1045) increasing the authority of optometrists to treat eye disorders with pharmaceutical agents, order certain tests, and use diagnostic lasers also was passed by the Legislature, but was vetoed by the governor because of fear that it was done primarily out of financial considerations and not in the best interests of the public, an article in the *Arizona Capitol Times* reported.¹⁷ Also, a bill (SB 1394) that would have made it easier for patients in health maintenance organizations to use chiropractors was vetoed for fear it would have increased insurance costs for employers and employees, the governor was quoted in *The Tribune*.¹⁸

Following is a sample of expanded authority given to two occupations:

- **medical assistants** — can now without supervision take and record a patient's vital signs and medical history; and in addition to a physician, medical assistants can now be supervised by a physician assistant or nurse practitioner while taking body fluid specimens and administering injections;¹⁹
- **physician assistants** — are now licensed instead of certified, and can report the name of the spouse, sex partner, etc. if patient is HIV positive.

Following are a sample of changes or additions to overseeing boards:

- HB 2316 expands the power of the state veterinary board by requiring more frequent reports and the creation of an investigative committee;
- after minimal changes to physical therapy law since legislation was established in 1952, HB 2399 completely rewrites and modernizes the law relating to physical therapists and gives the public more access to information about licensees, certificate holders, and actions taken by the Board of Physical Therapists;
- acupuncturists will now be li-

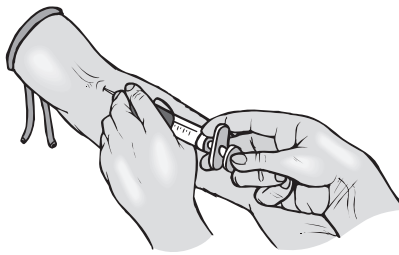
censed and regulated by the state. HB 2271 establishes an Acupuncture Board of Examiners and requires licensees to complete a "clean needle technique" course and meet specified qualifications;²⁰

- HB 2402 expands the power and duties of the Board of Osteopathic Examiners to oversee the qualifications and competency of practitioners of osteopathic medicine;
- HB 2403 and HB 2404 expands the power and authority of the boards overseeing respiratory care examiners and physician assistants.

There were several bills passed relating to teacher conduct and dismissals. One bill (HB 2295) standardizes the minimum time period — from one full semester to 85 instructional days — "in which teachers are provided an opportunity to correct the inadequacy."²¹

And HB 2697 extends the time period (through June 30, 1999) the state Board of Education can conditionally certify teachers and other personnel who interact with students before a fingerprint-based criminal background check must be completed. The teacher or other workers can subsequently be fired or have their certificate revoked if the check shows problems with their application. Also, SB 1101 requires schools boards to adopt procedures for "background investigations" (excluding criminal conduct) of potential employees, and protects teachers and school board officials from reprisals for reporting illegal conduct with minors by school employees.

Related to school fingerprinting, HB 2585 created a special fingerprinting division within the Department of Public Safety, with one of its primary functions being to conduct criminal background checks of potential employees for various state government agencies and issue them "fingerprint clearance cards."



New Law Expands the Functions Allowed for Medical Assistants

And finally among successful legislation, about 30,000 employees, owners, and contract workers in the nursing home, residential-care, and home health-care industry will now be fingerprinted in an attempt to crack down on criminals working in that field.

Among occupational bills that failed was legislation that would have created a state license for real estate inspectors, who would have been overseen by the state Registrar of Contractors. In addition, the law would have allowed contractors to perform inspections in their own area of expertise. The head of the Arizona chapter of the American Society of Home Inspectors argued, however, that the bill would have been "anti-consumer" because it would have "relieved (real estate) agents of any liability for the condition of the properties they sell."²²

Notes:

1. "How The Business Community Fared In 1998," Jim Norton, Guest Editorial, *Arizona Capitol Times*, June 5, 1998, p. 40.
2. Several newspaper articles including one annotated in Footnote 1.
3. "Tax changes should make Arizona more competitive," Terry Meland, Burr-Brown Corp., published at Internet site of *Inside Tucson Business* (<http://azbiz.com>), May 26, 1998.

4. Ibid.
5. Ibid.
6. "How The Business Community Fared In 1998," Jim Norton, Guest Editorial, *Arizona Capitol Times*, June 5, 1998, p. 40.
7. Ibid.
8. "Jobless insurance rate to drop," Howard Fischer, *Capitol Media Services*, published in *The Tribune*, Dec. 30, 1997, p. B1.
9. Fact Sheet for HB 2427, Arizona House of Representatives, corporations; omnibus.
10. Ibid.
11. Electric power competition, (HB 2663), Chapter 209, 1998 *Legislative Summary*, Arizona State Senate, pp. 38-43.
12. Adult Oriented Businesses: Counties (SB 1162), Chapter 296, 1998 *Legislative Summary*, Arizona State Senate, p. 63.
13. "Builder bill resurfaces, killed again," Max Jarman, *The Arizona Republic*, April 16, 1998.
14. Fact Sheet for HB 2163, Arizona State House of Representatives; Desert Pacific Economic Region Compact.
15. "Significant Unemployment Insurance Data, A State by State Comparison, 1998," Nevada Department of Employment, Training and Rehabilitation, Research Analysis Bureau, April 1998.
16. Fact Sheet for SB 1077, Arizona State Senate, Workers' Compensation; Peace Officers.
17. "Enactments Of The 1998 Legislative Session — Bills That Were Vetoed," *Arizona Capitol Times*, June 5, 1998, p. 40.
18. "Gov. Hull vetoes chiropractic bill," Jennifer Markley, *The Tribune*.
19. Revised Fact Sheet for HB 2262, Arizona State Senate, Medical Assistants.
20. Acupuncture; Licensure (HB 2271), Chapter 239, 1998 *Legislative Summary*, Arizona State Senate, p. 29.
21. Revised Fact Sheet for HB 2295, Arizona State Senate, Teacher Dismissal — evaluation period.
22. "Home inspectors, Realtors at odds over license bill," Mike Fimea, *Arizona Business Gazette*, reprinted in *The Arizona Republic*, March 28, 1998. **AET**

— Brent Fine
Arizona Economic Trends Editor

UI Tax Cuts Benefit Most Employers

(continued from front page)

establish individual employer tax rates, based on the reserve ratio (contributions collected less benefits paid as a proportion of average taxable wages) for positive- and negative-balance employers, respectively. Positive-balance employers have positive reserve ratios (a positive balance in their account). Negative balance employers have a negative balance in their account (more benefits were paid than contributions taken in).

Tax-Rate Computation

During the tax-rate computation process, employer tax rates in ARS 27-730.1 and ARS 27-730.2, called the "unadjusted tax rates," are modified (taking into account interest expected to be accrued to the UI trust fund for the ensuing tax year) to equal what are called the "adjusted tax rates." This is done in a manner (as set forth in law) so that the total of expected aggregate taxes collected from the adjusted tax rates combined with expected interest to the trust fund, as a proportion of expected aggregate taxable wages, equals the "required income rate."

SB 1057 reduced the required income rate by 0.1 of a percentage point across all fund ratio categories. This will, on average across all employers in the state, lower the tax rate by 0.1 of a percentage point.

The bill also reduced the unadjusted employer tax rates. The unadjusted tax rates for all positive-reserve ratio employer categories were reduced by 0.1 of a percentage point, except for employers at the top end of the reserve ratio schedule (those employers with a re-

Table 1

Highlights of Changes in Unemployment Insurance Tax Legislation (SB 1057)

- ✓ Reduces by 10 percentage points the base contribution rate associated with positive reserve-ratio employers with a reserve ratio of less than 13 percent
- ✓ Reduces each of the base contribution rates associated with negative reserve-ratio employers by 5 percentage points, except the 13 percent or more rate
- ✓ Reduces each of the required income rates by 10 percentage points
- ✓ Reduces, from .1 to .05 percent, the minimum employers' unadjusted rate
- ✓ Increases the maximum weekly unemployment insurance benefit from \$185 to \$195 for FY 1998-1999 and \$205 for FY 1999-2000 and all subsequent fiscal years

serve ratio greater than or equal to 13 percent). Because their unadjusted tax rate is currently 0.1 percent, they will get a reduction of 0.05 of a percentage point. Negative-balance employers will have their unadjusted tax rates reduced by 0.05 of a percentage point, except for those employers with a 5.4 percent tax rate. The 5.4 percent tax rate category is unaffected because federal law requires that Arizona must have a tax rate category at least as high as 5.4 percent.

Redistribution of UI Tax

As already pointed out, the total of expected taxes collected from the adjusted tax rates and expected interest accrued to the trust fund as a proportion of expected aggregate taxable wages must equal the required income rate. Thus, in aggregate across all employers, the reductions in the unadjusted employer tax rates are not another tax benefit on top of the required income rate reduction. Rather, it redistributes the tax burden across employers.

Employers with unadjusted tax rates at the low end of the tax-rate scale (see Table 2) will benefit more from the required income rate reduction than those at the upper end. This is

because the contribution rate reductions (the 0.1 or 0.05 of a percentage point, as the case may be), as a percent of the current unadjusted contribution rates, decline as contribution rates increase in magnitude.

Table 3 demonstrates the tax redistribution effect, by showing what an employer's contribution rate would have been had SB 1057 been in effect during 1998.

The first column of Table 3 gives this year's actual adjusted contribution rate. These are the rates that were assigned to individual employers. The second column shows what the tax rates for positive-balance employers would have been had only the part of SB 1057 that reduces the unadjusted tax rates for positive-balance employers been implemented. (The tax rate reductions for negative-balance employers are not included in this simulation because to clearly show the redistribution effect, it is necessary to remove any effect of a tax increase to positive-balance employers that would have come from the reduction in the tax rates for negative-balance employers. (see footnote in Table 3 for a more complete explanation)). It should also be noted that aside

from this scenario, an unadjusted tax-rate reduction that only targeted positive-balance employers was not considered by the Legislature.

Comparing the first and second columns demonstrates the redistribution of the tax burden. Employers at the low end of the tax-rate scale would have seen a reduction in their adjusted tax rates from what they actually are, but employers at the high end of the scale would have actually had an increase in their adjusted tax rate.

The third column of Table 3 shows what employer tax rates would have been had all of SB 1057 been in effect for 1998. It can be seen that, compared to column one, all employers would have benefited from SB 1057, except new employers, inactive employers, and negative-balance employers with a 5.4 percent tax rate.

The important point to keep in mind, however, is that even though all positive-balance employers would have seen a tax reduction from the required income-rate reduction, not all employers would have benefited equally from it because of the provision of SB 1057 that lowers the unadjusted tax rates. Those at the lower end of the tax-rate scale would have seen lower tax rates with this provision than if the bill not included it. Conversely, positive-balance employers at the higher end of the tax rate scale would have had higher tax rates with this provision than without it.

Tax Benefit for Negative-Balance Employers

As just pointed out, negative-balance employers will benefit from the law change. This will always be the case in years when the total of expected taxes collected from the unadjusted contribution rates and the expected interest accrued to the UI trust fund as a proportion of expected taxable wages equals or ex-

Table 2

Current and New (Effective Jan. 1, 1999) Arizona Employer Unadjusted UI Tax Rates

Current Unadjusted UI Tax Rates	New Unadjusted UI Tax Rates	Percent Decrease
Positive-Balance Employers		
0.10%	0.05%	50.0%
0.25	0.15	40.0
0.50	0.40	20.0
0.75	0.65	13.3
1.00	0.90	10.0
1.25	1.15	8.0
1.50	1.40	6.7
1.75	1.65	5.7
2.00	1.90	5.0
2.25	2.15	4.4
2.50	2.40	4.0
2.70	2.60	3.7
New and Inactive Employers		
2.70	2.70	0.0%
Negative-Balance Employers		
2.90	2.85	1.7%
3.10	3.05	1.6
3.35	3.30	1.5
3.60	3.55	1.4
3.85	3.80	1.3
4.10	4.05	1.2
4.35	4.30	1.1
4.60	4.55	1.1
4.85	4.80	1.0
5.10	5.05	1.0
5.35	5.30	0.9
5.40	5.40	0.0

Source: SB 1057, as passed by Arizona Legislature and signed by Governor Jane Hull, June 1998

ceeds the required income rate. However, in those years when the relation is reversed (i.e., less income is expected than required) negative-

balance employers (as well as positive-balance employers) will have their unadjusted tax rates adjusted upward.

The latter scenario has only occurred eight times since 1970. In this situation, relative to positive-balance employers, negative-balance employers will have a larger tax burden than under current law (see Table 2), as a result of the redistribution effect previously described. This is because the unadjusted tax rates are greater than those for positive-balance employers (hence the impact of the unadjusted rate reduction is smaller), and the unadjusted rate reduction is half that for positive-balance employers (i.e., 0.05 of a percentage point vs. 0.1 of a percentage point).

Maximum Weekly Benefit

The MWBA is calculated as 1/25th of the highest quarterly wages in a claimant's base period. The base period is the first four of the last five calendar quarters from the point in time a claimant files for UI benefits. It is used to determine a claimant's monetary eligibility for benefits.

Employers who had employed the claimant during the base period are the ones charged for the benefits the claimant receives during its benefit year (12 months in length). A claimant is eligible to get this weekly amount up to 26 weeks in a benefit year. Prior to SB 1057, the ceiling on the MWBA was \$185. SB 1057 increases the maximum possible amount to \$205 in two steps. Effective July 1, it was increased by \$10 to \$195. Next July 1 it will be increased another \$10 to \$205.

The impact upon employers is varied. If a claimant does not qualify for a weekly benefit amount greater than \$185, then the MWBA increase will have no impact upon an employer's tax rate. Most agricultural employers would fall in this category.

Determining the impact upon employers of claimants qualifying for a MWBA greater than \$185 is more

(continued on back page)

Table 3

Effect of Partial and Full Implementation of SB 1057 on 1998 Unadjusted UI Tax Rates

Current Unadjusted UI Tax Rates	Effect of Unadjusted UI Tax Reduction for Only Positive-Balance Employers ¹	Effect of Full Implementation of SB 1057 ²
Positive-Balance Employers		
0.10%	0.05%	0.05%
0.19	0.12	0.11
0.38	0.32	0.29
0.56	0.52	0.47
0.75	0.73	0.65
0.94	0.93	0.83
1.13	1.13	1.01
1.31	1.33	1.19
1.50	1.53	1.37
1.69	1.74	1.56
1.88	1.94	1.74
2.03	2.10	1.88
New and Inactive Employers		
2.70%	2.70%	2.70%
Negative-Balance Employers		
2.90%	2.90%	2.85%
3.10	3.10	3.05
3.35	3.35	3.30
3.60	3.60	3.55
3.85	3.85	3.80
4.10	4.10	4.05
4.35	4.35	4.30
4.60	4.60	4.55
4.85	4.85	4.80
5.10	5.10	5.05
5.35	5.35	5.30
5.40	5.40	5.40

Notes:

- 1 When the estimated yield from unadjusted tax rates exceeds the required yield, negative-balance employers with reduced tax rates will bring in less in contributions than under current law. Thus, this difference must be picked up by positive-balance employers. To clearly show the redistribution effect, it is necessary to remove any effect of a tax increase to positive-balance employers that would have come from the reduction in the tax rates for negative-balance employers. For this reason, the reduction in the tax rates for negative-balance employers are not included in this simulation. However, it should be noted that the tax increase on positive balance employers from the tax reduction for negative-balance employers is very minor. Had this simulation included the reduction for negative-balance employers, it would have increased the tax rates for only two positive-balance employer tax-rate categories by just 0.01 of a percentage point each.
- 2 Reduction in the unadjusted contribution rate for positive- and negative-balance employers, and a reduction in the Required Income Rate.

Quarterly Data Show Job Growth Slowing in Arizona

Arizona's economy expanded by 18,400 nonfarm payroll jobs during the second quarter. According to the survey of businesses, the stamina of economic growth was supported in both the goods- and service-producing industries.

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Goods-producing industries added 4,200 jobs, though experiencing somewhat of a softening when compared to their 10-year average gain for the second quarter. Service-producing industries, on the other hand, showed notable vigor with growth of 14,200 jobs—well above their 10-year average quarterly gain. Together, these aggregate industry groups have averaged about 27,000 new jobs since the year began.

As revealed by the survey of households, Arizona's civilian labor force expanded by more than 35,000 during the second quarter—a 1.6 percent increase. From the supply point of view, this has made it possible for Arizona's businesses to grow to the extent they have. Many firms have publicly expressed, however, the difficulties they have experienced in finding enough people to grow even further.

At least through second quarter, there was one thing clear at both the national level and especially in our Grand Canyon State—the labor market has been tight. Arizona's unemployment rate averaged a low 4.2 percent during the second quarter, up only slightly from the 4 percent of the first quarter.

The services industry added 10,400 jobs during the second quarter. Thus far for this industry group, the first two quarters of '98 have outperformed a similar period for '97. Slightly more than 35,000 jobs have

(continued on page 19)

Figure 1

Quarterly and 10-Year Average Quarterly Change in Arizona Major Industry Employment, 2nd Qtr. 1998¹

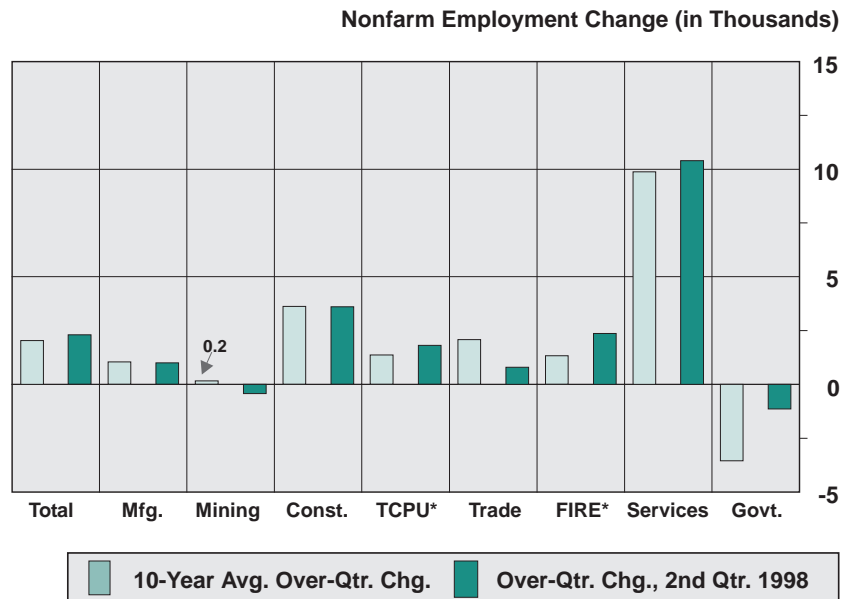
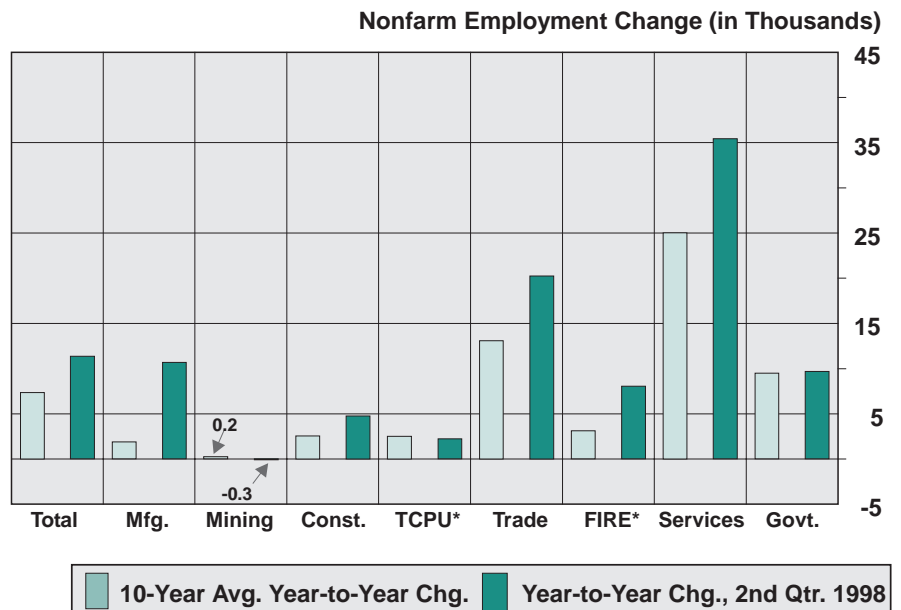


Figure 2

Year-to-Year Change and 10-Year Average Year-to-Year Change in Arizona Major Industry Employment, 2nd Qtr. 1998¹



Note: 1) Quarterly averages of monthly data, not seasonally adjusted

Source: Arizona Dept. of Economic Security, Research Administration, July 1998

Table 1

Arizona Quarterly Nonfarm Employment Data, with Quarterly and Over-the-Year Percentage Change,
2nd Qtr. 1997-2nd Qtr. 1998⁽¹⁾

(in Thousands)

	97/2	97/3	97/4	98/1	98/2	10-year Avg. of Qtr. 2 Changes
Civilian Labor Force	2,140.3	2,175.9	2,223.1	2,225.4	2,261.1	
Quarterly Change	0.8%	1.7%	2.2%	0.1%	1.6%	NA
Annual Change	-3.4%	-1.9%	1.6%	4.8%	5.6%	NA
Total Employment	2,041.6	2,065.6	2,132.1	2,143.5	2,170.0	
Quarterly Change	1.1%	1.2%	3.2%	0.5%	1.2%	NA
Annual Change	-2.6%	-0.6%	3.0%	6.1%	6.3%	NA
Total Nonfarm Payroll Employment	1,970.1	1,955.9	2,033.9	2,042.5	2,060.9	
Quarterly Change	1.1%	-0.7%	4.0%	0.4%	0.9%	1.0%
Annual Change	5.0%	4.2%	4.3%	4.8%	4.6%	3.6%
Manufacturing	204.6	208.6	211.7	214.3	215.3	
Quarterly Change	0.9%	2.0%	1.5%	1.2%	0.5%	0.8%
Annual Change	2.6%	3.6%	4.7%	5.7%	5.2%	1.0%
Mining and Quarrying	13.6	14.2	14.2	13.8	13.4	
Quarterly Change	-1.9%	4.4%	-0.2%	-2.6%	-3.1%	1.4%
Annual Change	-4.4%	-0.9%	6.2%	-0.5%	-1.7%	2.2%
Construction	129.9	133.2	133.1	131.1	134.7	
Quarterly Change	3.3%	2.6%	-0.1%	-1.6%	2.7%	3.9%
Annual Change	3.9%	3.8%	3.4%	4.2%	3.7%	2.7%
Transportation, Communications, and Public Utilities	96.2	95.0	97.5	96.6	98.4	
Quarterly Change	2.8%	-1.3%	2.7%	-1.0%	1.9%	1.7%
Annual Change	6.3%	2.8%	2.7%	3.2%	2.3%	3.1%
Finance, Insurance, & Real Estate	125.8	127.6	130.1	131.5	133.9	
Quarterly Change	2.5%	1.4%	2.0%	1.1%	1.8%	1.3%
Annual Change	8.9%	8.0%	7.9%	7.1%	6.4%	3.0%
Trade	478.4	474.0	494.8	497.8	498.6	
Quarterly Change	0.0%	-0.9%	4.4%	0.6%	0.2%	0.5%
Annual Change	3.4%	3.6%	3.5%	4.0%	4.2%	3.5%
Services and Miscellaneous	595.2	599.5	614.0	620.3	630.7	
Quarterly Change	1.7%	0.7%	2.4%	1.0%	1.7%	2.2%
Annual Change	6.9%	6.4%	5.8%	6.0%	6.0%	5.6%
Government	326.3	303.8	338.4	337.1	336.0	
Quarterly Change	0.1%	-6.9%	11.4%	-0.4%	-0.3%	-1.2%
Annual Change	4.3%	0.6%	2.1%	3.4%	3.0%	3.5%

Notes: 1) Detailed industry data may not add up exactly due to averaging.
NA = Not Available
See Table 3 for Source

Table 2

Phoenix-Mesa Metropolitan Area Quarterly Nonfarm Employment Data, with Quarterly and Over-the-Year Percentage Change, 2nd Qtr. 1997-2nd Qtr. 1998⁽¹⁾

(in Thousands)

	97/2	97/3	97/4	98/1	98/2	10-year Avg. of Qtr. 2 Changes
Civilian Labor Force	1,401.5	1,427.6	1,468.4	1,475.4	1,495.5	
Quarterly Change	0.7%	1.9%	2.9%	0.5%	1.4%	NA
Annual Change	-2.5%	-0.6%	2.8%	6.0%	6.7%	NA
Total Employment	1,360.2	1,382.8	1,428.5	1,438.9	1,458.5	
Quarterly Change	1.1%	1.7%	3.3%	0.7%	1.4%	NA
Annual Change	-1.8%	0.5%	3.8%	6.9%	7.2%	NA
Total Nonfarm Payroll Employment	1,374.4	1,373.4	1,430.0	1,438.8	1,454.5	
Quarterly Change	1.2%	-0.1%	4.1%	0.6%	1.1%	1.1%
Annual Change	5.9%	5.4%	5.3%	5.9%	5.8%	3.9%
Manufacturing	159.0	162.3	165.1	167.5	168.8	
Quarterly Change	1.2%	2.1%	1.7%	1.5%	0.7%	0.7%
Annual Change	3.1%	4.7%	6.2%	6.6%	6.2%	1.5%
Mining and Quarrying	6.0	6.7	6.7	6.3	6.0	
Quarterly Change	-7.2%	11.0%	0.0%	-5.5%	-5.3%	0.5%
Annual Change	-10.0%	0.0%	15.5%	-2.6%	-0.6%	3.9%
Construction	93.3	95.1	95.8	94.8	98.0	
Quarterly Change	2.7%	1.9%	0.7%	-1.0%	3.4%	3.3%
Annual Change	4.8%	4.2%	3.9%	4.4%	5.1%	3.2%
Transportation, Communications, and Public Utilities	70.0	70.0	72.5	72.2	73.7	
Quarterly Change	2.6%	-0.1%	3.7%	-0.5%	2.1%	1.6%
Annual Change	8.1%	4.4%	3.8%	5.8%	5.2%	3.6%
Finance, Insurance, & Real Estate	106.1	107.5	109.9	112.2	114.7	
Quarterly Change	2.7%	1.3%	2.3%	2.1%	2.2%	1.3%
Annual Change	12.0%	10.3%	9.6%	8.7%	8.1%	3.5%
Trade	336.2	333.7	350.2	353.8	354.2	
Quarterly Change	0.1%	-0.7%	5.0%	1.0%	0.1%	0.5%
Annual Change	4.0%	3.9%	3.8%	5.3%	5.4%	3.7%
Services and Miscellaneous	432.2	435.9	447.5	452.3	460.1	
Quarterly Change	2.2%	0.9%	2.7%	1.1%	1.7%	2.1%
Annual Change	8.6%	7.7%	7.0%	7.0%	6.5%	6.3%
Government	171.7	162.3	182.2	179.7	179.1	
Quarterly Change	-1.3%	-5.5%	12.3%	-1.4%	-0.4%	-0.7%
Annual Change	2.5%	1.8%	1.6%	3.3%	4.3%	3.0%

Notes: 1) Detailed industry data may not add up exactly due to averaging
 2) The introduction of Pinal County into the Phoenix-Mesa Metropolitan Area has created an inconsistency in the mining employment data beginning in 1990
 a) Phoenix-Mesa Metropolitan Area includes Maricopa and Pinal counties
 NA = Not Available

Table 2

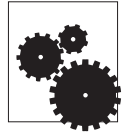
Tucson Metropolitan Area Quarterly Nonfarm Employment Data, with Quarterly and Over-the-Year Percentage Change,
2nd Qtr. 1997-2nd Qtr. 1998⁽¹⁾

(in Thousands)

	97/2	97/3	97/4	98/1	98/2	10-year Avg. of Qtr. 2 Changes
Civilian Labor Force	356.4	353.8	364.5	366.1	368.5	
Quarterly Change	0.6%	-0.7%	3.0%	0.4%	0.6%	NA
Annual Change	-5.8%	-4.1%	0.0%	3.3%	3.4%	NA
Total Employment	345.1	341.4	353.4	355.9	358.7	
Quarterly Change	0.9%	-1.1%	3.5%	0.7%	0.8%	NA
Annual Change	-5.3%	-3.6%	0.8%	4.0%	3.9%	NA
Total Nonfarm Payroll Employment	314.5	305.8	319.3	321.0	322.7	
Quarterly Change	1.0%	-2.8%	4.4%	0.5%	0.5%	0.2%
Annual Change	2.0%	1.1%	2.3%	3.1%	2.6%	2.5%
Manufacturing	28.2	28.3	28.4	28.6	29.2	
Quarterly Change	0.2%	0.4%	0.5%	0.6%	2.2%	0.2%
Annual Change	1.2%	0.2%	0.1%	1.7%	3.7%	-0.7%
Mining and Quarrying	2.4	2.5	2.4	2.3	2.3	
Quarterly Change	2.9%	4.2%	-2.7%	-4.2%	0.0%	2.9%
Annual Change	0.0%	4.2%	9.1%	0.0%	-2.8%	4.4%
Construction	19.1	19.8	19.8	20.3	20.7	
Quarterly Change	2.3%	3.8%	0.0%	2.5%	1.6%	3.6%
Annual Change	-0.5%	2.1%	3.1%	8.9%	8.2%	-0.1%
Transportation, Communications, and Public Utilities	13.4	13.1	13.2	13.0	13.4	
Quarterly Change	1.8%	-2.5%	1.0%	-1.3%	2.8%	2.5%
Annual Change	-0.2%	-2.7%	-2.7%	-1.0%	0.0%	4.0%
Finance, Insurance, & Real Estate	11.7	11.9	12.1	12.4	12.5	
Quarterly Change	0.9%	1.4%	1.7%	2.5%	1.1%	0.3%
Annual Change	-4.3%	-0.3%	3.4%	6.6%	6.8%	-0.7%
Trade	68.0	67.1	69.7	70.1	69.8	
Quarterly Change	-0.5%	-1.4%	4.0%	0.5%	-0.4%	-0.9%
Annual Change	1.1%	2.3%	2.6%	2.6%	2.7%	2.1%
Services and Miscellaneous	98.8	98.2	100.0	100.7	100.8	
Quarterly Change	0.9%	-0.6%	1.9%	0.7%	0.0%	1.0%
Annual Change	3.6%	2.5%	2.1%	2.9%	2.0%	4.3%
Government	73.0	65.0	73.6	73.6	73.9	
Quarterly Change	2.5%	-10.9%	13.2%	0.0%	0.5%	-1.1%
Annual Change	3.4%	-1.2%	3.5%	3.3%	1.3%	3.8%

Notes: 1) Detailed industry data may not add up exactly due to averaging
b) Tucson Metropolitan Area includes all of Pima County
NA = Not Available

Industry Update



Phoenix Metro Area

Manufacturing

High-tech manufacturing could gain as many as 1,200 jobs over the next few years because of the following three companies either moving to the Phoenix area or expanding. **CNF Inc.** is moving its global headquarters from Morgan Hill, Calif., to the Scottsdale Airpark. The building will also house its manufacturing plant and marketing and sales operations. **Varian Tempe Electronics Center** will soon undergo a \$6 million expansion, adding 500 employees to its staff. And **National Computer Systems** will expand its Mesa plant to make room for nearly 250 employees.

In terms of prestige and employment, the Valley's top two high-tech companies, **Motorola and Intel, are beginning to lose a little bit of their luster.** Both announced forthcoming layoffs of a significant nature. Motorola said weakness in its computer semiconductor division will lead to about a 10 percent cutback in its worldwide workforce of about 150,000. With 20,000 employees Valleywide — and 13,000 in its Semiconductor Products unit — that translates into at least 2,000 jobs that likely will be lost locally. No firm number of layoffs locally, however, has been determined. For Intel, which had said in January it was eliminating 1,100 jobs at its Chandler operations (due to company restructuring and the relocation of part of its packaging operation), there was news of an additional 600 jobs that will be eliminated by October 1. These cutbacks, which will involve assembly workers, engineers, and managers/supervisors, are part of the same restructuring plans. About one-third of the initial group found other jobs at Intel's local operations, but it's unlikely workers in the second group will be as fortunate, the company said. Currently, Intel employs more than 9,000 at its four Chandler locations.

Clayton Homes will build a 100,000-square-foot manufacturing plant in El Mirage. The Tennessee-based home manufacturer has more than 6,000 employees in 28 states. The company will employ 225 in El Mirage.

Hypercom, a Phoenix-based computer-software firm, has paid \$3.1 million for land at Arizona Business Park (Interstate 17 between Greenway and Bell roads) for a \$20 million expansion. The move will create more than 100 jobs in software programming, administration, and sales. Hypercom, which makes credit-card reading equipment, has about 800 employees in Phoenix.

National Computer Systems is planning an expansion of its Mesa facility to make room for 250 additional employees. The educational software company, based in Minnesota, plans to add 400 jobs over the next five years.

OmniScience Pharmaceuticals is moving its headquar-

ters and research and development operations from Detroit to Tempe. The company, which has developed a technology to cut the cost of making drugs, expects to hire about 25 locally.

JDA Software Group Inc. made it official this spring when it announced that it intended to move its corporate headquarters from Phoenix to Scottsdale. The international accounting software and services company said it will **expand employment in the Valley, from 350 to 450**, when it opens next March its new \$20 million headquarters just east of the Scottsdale Airpark. Information on available jobs can be found at the company's Internet web site (www.jda.com).

Avnet Inc.'s Electronic Marketing Group is doubling the size of its Chandler warehouse to about 200,000 square feet. There are no immediate plans for expanding the facility's workforce of 500, but the \$21 million expansion, which includes a new conveyer system, could eventually lead to more jobs. The plant ships about 10,000 packages a day. Avnet, the country's second leading electronic parts distributor, moved its corporate headquarters to the Valley from Great Neck, N.Y., earlier this year. The company currently employs about 2,200 in the Phoenix metro area.

While Intel and Motorola announced earlier this month the possibility of significant layoffs in the Valley due to weakness in the semiconductor industry (see above), **Honeywell Inc. may "soak up" several hundred of those workers.** Honeywell, which employs about 7,500 at three electronics and aviation systems sites in metro Phoenix, said it has a **shortage of engineers, technicians, and assemblers.** Many of the skills needed by Honeywell are similar to those possessed by Intel and Motorola workers. In addition, Honeywell is willing to do training where needed.

Scottsdale will be home to the nation's second-largest, Medicare-certified provider of care for terminally-ill patients after the **merger in late June of VistaCare of Scottsdale and Dallas-based Family Hospice Ltd.** The combined company, which will have 50 sites in 20 states, said it plans to make another major acquisition before the end of the year.

The **expansion of two computer-consulting companies** into the Valley is expected to **create more than 300 jobs.** **Advanced Programming Resources Inc.,** which specializes in fixing the "Year 2000" bug, plans to open a **Southwest regional center in Tempe**, employing about 300 people. Among the company's clients are American Express, Motorola, and Banc One Corp. Also, about 30 high-paying jobs will be created by the opening of a Phoenix branch of **Greenbriar & Russell**, an Illinois-based computer-consulting company. The average position will

pay about \$60,000. The office will be located in the Anchor Center, 22nd Street and Camelback Road.

If you're into numbers, **In-Stat** may be worth taking a look at — in terms of finding a job. The Scottsdale-based, high-tech market-research firm, which provides data to companies such as Motorola, is **merging with three other companies and moving into a larger headquarters**. The newly merged company will be called **Cahners In-Stat Group**.

Construction

Sun State Builders will begin work this summer on the final phase of a **\$50 million, four-building project at Papago Park Center** in Tempe. Completion next January of a four-story speculative building will finish the Papago Arroyo Campus project, which also includes buildings that house the national headquarters of **OrthoLogic Corp.** and the soon-to-be home of **Sonoran Quest Laboratories**. Another building that was supposed to house Gateway Sciences Corp. lays vacant because of financial problems plaguing Gateway. Sun State also plans to build a second \$50 million project across the street. Ultimately, the immediate area could be home to 10,000 workers, one official said.

The former home of the beloved Ciné Capri movie theater on the **southwest corner 24th Street and Camelback Road** will now become home to **two office buildings totaling 600,000 square feet** and a **350-room business hotel**. Hines of Houston will develop the project, scheduled to get under way later this year. A 1,200-space parking garage, along with restaurants and shops, are also included in the plans.

Tower Plaza, one of the Valley's oldest shopping centers, will be demolished this summer to make way for a 40-acre **Desert Palms Power Center featuring a Home Depot and Wal-Mart**. The 40-year-old mall at 40th Street and Thomas Road has been in decline for a number of years, with many of its stores now vacant. At the same time, the Arcadia Crossing shopping center (which replaced the former Thomas Mall) at 44th Street and Thomas has taken away a number of stores and customers. No timetable has been announced for when the new power center will open.

A strong local economy and low interest rates continue to fuel **Phoenix-area home and apartment construction**. Through the first quarter of 1998, overall **housing permits were up 9 percent**, with single-family home units up about 16 percent. And despite average rents increasing more than 6 percent the past year, demand for apartments — particular luxury units — continues unabated, with 25,000 new apartment units currently under construction. And it's not likely that construction will slack off much in the next year. DES, Research Administration is forecasting about 100,000 new nonfarm payroll jobs will be created in the Phoenix metro area over the next two years, with many of the job entrants coming from out of state.

TRW Vehicle Safety Systems has laid off a total of 60 workers at its six North American air-bag manufacturing

plants. The layoffs, however, represent only 1 percent of the company's work force of 6,000. TRW has two plants in Arizona, both in Mesa.

Services

The **Valley limited-service hotel market** is overbuilt, according to a hotel analyst for Pullen & Co. Examples of such hotels are Fairfield Inn, Quality Inn, and Homewood Suites. Many such hotels are located along Interstate 17 between Dunlap Avenue and Cactus Road. Pullen said the occupancy rate in the Phoenix area is expected to drop from 72 percent in 1996 to 64 percent this year.

Meanwhile, there are **eight major luxury hotels** in the planning or build phase. Two will be located downtown — a Westin high-rise convention hotel with 38 stories and 700 rooms, and a Doubletree with 475 rooms at Arizona Center. Four hotels will be in Scottsdale — a Four Seasons resort in north Scottsdale's Troon development, a Westin Kierland with 750 rooms (also in north Scottsdale), a 500-room Ritz-Carlton at Grayhawk, and a 500-room Marriott near Scottsdale Fashion Square. In addition to these, a 1,000-room Marriott will be part of the Desert Ridge community in northeast Phoenix, and a 1,000-room Peabody hotel is scheduled to be part of Tempe's Rio Salado Project.

A six-story 252-suite resort will be built next to the Superstition Springs Country Club in east Mesa. Also planned are 144 condominium units. The complex will feature conference space, restaurants, and retail areas. The project's tentative title is the **Superstition Springs Resort Hotel**. The complex will span 14 acres on the north side of Baseline Road between Power Road and Superstition Springs Boulevard.

A 150-unit **Embassy Suites time-share resort** is under construction near the Tournament Players Club in north Scottsdale. The resort, built by Vistana of Orlando, Fla., is expected to open by Thanksgiving.

The Buttes, a 12-year-old Tempe hotel overlooking Phoenix and the East Valley, will become part of the **Wyndham** resort chain. Wyndham plans to spend \$6 million on renovating the hotel, including all 353 guest rooms. The elegant Top of the Rock restaurant will not be changed.

Construction has begun on a **six-story resort hotel** near the Stonecreek Golf Club south of Paradise Valley Mall. The \$40 million hotel is expected to open early next year. It will be designed so that guests entering the hotel lobby will be able to look past the pool and onto the Stonecreek golf course.

The Mesa City Council has voted to spend \$3.9 million to help a Canadian company build a **resort, water park, and multi-purpose arena** in downtown Mesa. The council's somewhat controversial move was based on the assumption that the project would pay for itself in about seven years through bed and sales taxes. The arena will seat 7,000. There will also be a fitness center and an ice skating rink. Interactive Leisure Resources hopes to have the 398-suite resort hotel and fitness center completed by

the end of next year.

Polar Ice Entertainment of Palm Beach Gardens, Fla., plans to spend \$9 million to build a pair of ice skating rinks in Chandler near Ray Road and Interstate 10. The ice rinks will be part of The Chandler Pavilions shopping center, which will include a Wal-Mart, Home Depot, and Toys "R" Us.

The Biltmore Medical Mall, located at Highland Avenue and 22nd Street in Phoenix, is scheduled to open this fall. About 30 specialists, including plastic surgeons, ophthalmologists, and orthopedic physicians, will work at the one-stop center for outpatient medical care. When their day at the mall is done, patients can recuperate at a nearby hotel.

Health-South Corp. will be the major tenant in a **\$12.5 million sports medical center** being developed in north Scottsdale. The three-story, 85,000-square-foot project will feature operating rooms, diagnostic imaging, and physical therapy services on the first floor, with space leased on the second and third floors to doctors and medical groups. Health-South, based in Birmingham, Ala., operates more than 1,850 outpatient medical centers in the United States, United Kingdom, and Australia.

Fargo, N.D.-based **Lutheran Healthcare System** plans to build a **\$31 million hospital in Gilbert**, which will initially have 50 to 75 beds, but eventually expand to 250 beds. **Construction** of the facility on 50 acres at Ray and Greenfield roads is **expected to begin in early 1999 and be completed 18 to 24 months later**. Currently, the nearest hospital to the planned site is Desert Samaritan in Mesa, about 13 miles away.

After delays due to problems obtaining financing, work has begun on the **\$90 million Four Seasons Resort** at Troon in north Scottsdale. **Expected to open in November 1999**, the 40-acre luxury resort will feature 181 rooms and suites and 120 time-share units.

Trade

Park Central Mall, at 3100 N. Central Avenue, is getting a makeover. Park Central already has several new restaurants, and two hotels are under construction along side the mall. The latest tenant at the mall is Training a la Carte, a computer training company. A six-story office building is also planned for the northeast corner of the parking lot along Central Avenue. Park Central, Phoenix' oldest mall, was once a key retail center, but J.C. Penney and Robinson's closed their stores in 1990 and Dillard's followed suit in 1995, leaving the mall without any anchor stores.

Scottsdale Fashion Square, on the northwest corner of Camelback and Scottsdale roads, is preparing to expand to a size of 1.9 million square feet, making it the biggest shopping center in the state. Some of the new stores will be Williams Sonoma, Pottery Barn, St. John Knits, Crate & Barrel, Abercrombie Kids, Amen Wardy, At Ease, The Great Train Store, the Thomas Kincade art gallery, and Tiffany & Co. On the other side of Camelback Road will be a new Nord-

strom's store (see below). All stores are scheduled to open September 18.

Nordstrom's is in the final stages of preparing to open its first Arizona store on Sept. 18. The 225,000-square-foot, three-story department store at Scottsdale Fashion Square will **employ 450 workers**. Among the store's features will be a mammoth shoe department, a spa, and an espresso bar. The Nordstrom's opening is having a ripple effect of sorts, forcing other retailers at the Scottsdale mall to upgrade their locations. **Dillard's and Sears are opening new stores and Robinsons-May is expanding its space.**

Westcor Partners has announced plans to build an expansive, upscale mall in Chandler. To be located on the southeast corner of Price Road and Chandler Boulevard, the 1.4 million-square-foot **SanTan Fashion Center** would become the second largest mall in the state. (The largest is Scottsdale Fashion Square, which is also a Westcor mall.) Plans call for five department stores, including a Dillard's and J.C. Penney. A movie theater will be the first section of the mall to be completed, but the entire project is expected to be finished by spring 2001.

Home Depot will soon have competition from the nation's No. 2 home improvement retail chain, Lowe's. Based in North Carolina, Lowe's plans to build more than 100 stores in the West. By the end of 1999, the company wants to have stores in Phoenix and Tucson, as well as Los Angeles, San Diego, and Las Vegas.

AutoNation USA, the nation's largest used-car retailer, has broken ground on its second Phoenix-area location — at Bell Road and the Black Canyon Freeway (Interstate 17). The company's first location, at Ray Road and Interstate 10, opened in January 1996.

The Phoenix metro area's fascination with shopping — witness the Valley's No. 3 ranking among metro areas in April department store sales — continues to fuel major retail development. Phoenix-based **Vestar**, developer of the Scottsdale Pavilions and Ahwatukee Foothills Towne Center, plans to build another power center — this one in northeast Phoenix. Construction on the nearly 900,000-square-foot **Desert Ridge Towne Center** is expected to **begin in 1999 and open eight to 12 months later**. Power center-type stores — such as Wal-Mart, Best Buy, and Office Max — are likely to be among the tenants.

Following up on an announcement in April of plans to open a 25,000-square-foot "outlet store" at Tempe's Arizona Mills next year, Neiman Marcus said it will open a **"smaller-format" version** of its retail store in Phoenix later this year. The 12,000-square-foot store, called **The Galleries of Neiman Marcus**, will make its Valley debut at the Biltmore Fashion Park (24th Street and Camelback Road).

Plans are in the works for a **\$1 billion waterfront project in Scottsdale** that would include 45 acres of restaurants, offices, entertainment facilities, and residential buildings. The **heart of the project would call for a**

Smithsonian museum, the first outside Washington D.C. The now vacant four-story Galleria shopping center would house the Smithsonian "branch" museum. The \$500 million **first phase of the waterfront project**, which would surround the Arizona Canal, is expected to **create 1,700 jobs and open sometime in the year 2000**. Part of the project would be financed through a state law allowing "theme-park" attractions to keep up to 30 percent of sales taxes it generates. The project developers estimate the area would bring in more than \$50 million in sales taxes a year.

Finance, Insurance, & Real Estate

Del Webb Corp. has renamed its planned residential community just south of New River, as well as revised some of its plans. The project is now called **Anthem**, replacing the name Villages at Desert Hills. Also, there was concern that the master-planned community of 14,500 homes may create gridlock on Interstate 17. So, Del Webb has revised plans for the community to set aside more open space and add overpasses.

A mutual funds company, **The Vanguard Group**, will be doubling its Phoenix-area employment over the next few years. Vanguard will relocate its corporate headquarters from Valley Forge, Pa., to northern Scottsdale. The company currently has 650 employees in Phoenix and Scottsdale.

Green Tree Financial expects to hire 800 new employees when it moves into its new regional headquarters, now under construction in the Perimeter Center in northern Scottsdale.

A Mesa land company is creating two business parks in the Superstition Springs area. **Langley Corporate Campus** will feature office and industrial buildings, hotels, retail centers, and housing. It will be located on 130 acres along the Superstition Freeway (U.S. 60) near Higley Road. The second property, known as the **Superstition Triangle**, consists of 50 acres along Greenfield Road between Baseline Road and the Superstition Freeway. **Langley Properties** bought the land after an effort to build a movie studio failed. Langley usually buys land, pays for improvements such as streets, then sells it in smaller parcels to developers.

Government

City of Mesa voters gave the OK in May to a quarter-cent sales tax that will fund and maintain an **\$85 million downtown arts complex**. All told, the city plans three theaters seating 1,600, 600, and 250, respectively, plus a rehearsal hall, art gallery, and retail space. Expected to open by 2003, the arts center will play host to the Mesa Symphony and other local cultural groups, plus be an east Valley venue for the Phoenix Symphony and Ballet Arizona.

The **Maryvale Mall in west Phoenix** was one of three national sites chosen for a **Census 2000 Data Center**. Ironically, the data center will create around **2,000 temporary jobs that will last around three months** beginning in early 2000. The data-processing positions are expected to pay between \$8 and \$10 an hour and have an economic impact of about \$35 million. College students, disadvan-

tagged youth, and welfare recipients will be among those targeted for the jobs.

Pep Boys — Manny, Moe, and Jack — is closing its Phoenix distribution center in September, causing the layoff of 75 people. The Phoenix location is the smallest of seven U.S. distribution centers.

Miscellaneous

Low personal income and higher corporate taxes and property crime rates make it less likely that corporations will want to move to the Phoenix area versus 10 other cities it normally competes with for expansion and relocations, according to a new survey. An **ESI Corp. study** of Phoenix and 10 other cities showed that San Jose had the highest personal income while San Antonio ranked last. On the other hand, corporate taxes are highest in California and lowest in Texas, Nevada, and Washington state. Arizona had the second highest corporate tax and highest property crime rate of the cities in the study.

Arizona State University undergraduates, particularly those in high-tech fields, are cashing in on the strong local and national economy. Data recently released for 1997 ASU graduates showed that ASU students **fared better than the national average in all major high-tech and engineering categories** and in several other fields of study. And preliminary data for 1998 graduates showed about a 3 percent increase over '97, along with the frequent occurrence of signing bonuses, which used to be reserved for graduate degrees. Among the average salaries garnered in '97 were \$44,000 for aerospace engineers, \$42,300 for computer science graduates, and \$42,200 for electrical engineers. ASU accountant graduates received offers about \$2,000 below the national average, while new graduates in marketing (\$29,700) and school teachers (\$24,500) received offers slightly above the national average.

Tucson

Manufacturing

Universal Avionics, which produces high-tech aviation equipment, is preparing to build a 64,000-square-foot **plant that will employ about 100** by early next year. Pima Community College will provide technical training for the new positions, which are expected to have starting wages of \$10 an hour. A portion of the new facility will also house the company's new corporate headquarters. Universal Avionics, which was rated as one of Arizona's 50 fastest-growing high-tech companies (\$80 million in sales in 1997), was the first company to produce a cockpit voice recorder that captures audio signals on memory chips.

National Information Group has chosen Tucson to expand and will create about 300 jobs there. The company deals in data entry and vehicle insurance tracking.

Sprint may hire as many as 150 new workers early next year as part of Tucson's program to provide telephone access to the deaf.

Services

Vestar-Athens Co. plans to break ground this year on a **luxury resort hotel** within the Rancho Vistoso community in Oro Valley, north of Tucson. The last resort hotel to be built in the Tucson area was the Ventana Canyon Resort in 1984. Vestar-Athens has not decided which of the following three hotel groups will be located at the site: Ritz-Carlton, Four Seasons, or Rosewood. Vestar-Athens is working on similar projects in San Francisco and San Antonio.

Less than 100 workers — including 30 supervisors and managers — will **lose their jobs** due to the **merger of two Tucson call centers** owned by Cincinnati Bell, the company said. Declining revenues were cited as the reason for combining Matrixx Marketing and Transtech into one operation. The new company will be called Matrixx Communications Alliance Group. Prior to the merger, about 1,000 employees worked for the two companies.

Balance of State

Manufacturing

No matter how you say the word “tomato” it’s going to mean **100 jobs** initially for a **\$15 million hydroponics plant** in the White Mountain community of **Snowflake**. **Suntastic USA Inc.** is expected to complete a tomato-

growing facility in the Navajo County community within the next few years. When finished, workers will earn wages ranging from \$7 to \$14 an hour. An additional 60 to 100 jobs are expected to be added once the plant’s operations begin to expand.

Trade

Sierra Vista is expected to get its **first indoor shopping mall**. Sears and Dillard’s have signed letters of intent to be part of the mall, which will be developed by Price-Her-ring LLC. The mall has the approval of the mayor and city council.

One of the nation’s largest office-supply chains, Staples, plans to **open a 24,000-square-foot store** in October at The Crossroads shopping center in **Sierra Vista**. Staples expects to hire about 40 full- and part-time workers.

Construction

San Jose, Calif.-based **Calpine Corp.** plans to build a natural gas-powered **power plant on the Fort Mohave Indian Reservation**, 30 miles south of Bullhead City. The \$275 million, 500-megawatt plant, which will generate enough electricity for 500,000 households, will create **250 temporary construction jobs** over an 18-month period when work gets under way next year. After the plant opens, Calpine plans to hire 25 full-time employees. **AET**

Job Growth Slowed in 2nd Quarter '98

(continued from page 11)

been added since the second quarter of '97. One of the strongest areas of growth has been the business services sector—averaging a near 11 percent increase over second quarter of '97.

Following are other notable items for the quarter:

- Mining continued its '98 losses by paring another 400 jobs in the period, just as it had in the previous quarter. Further losses are expected in this industry.
- After showing job losses in the previous two quarters, Arizona’s construction industry more than rebounded in the second quarter, expanding by 3,600. For the second quarter, the industry had a record average of 134,700 jobs. However, the year-to-year quarterly growth rate slowed to 3.7

percent, the slowest growth since 1992.

- The transportation, communications, and public utilities (TCPU) group added 1,800 jobs over the quarter. Transportation sectors continued to experience strong shipping and traveling demand. As compared to second quarter average figures, this group’s hiring slowed to 2.3 percent—the slowest growth rate since 1993.
- Trade expanded by 800 jobs, bolstered by growth primarily occurring in the wholesale industry. Quarterly average job gains in the wholesale trade sector were essentially offset by slight losses in retail trade.
- The finance, insurance, and real estate (FIRE) industry hired 2,400 workers. This marks the 10th month of average gains for this industry. The second-quarter figures showed year-to-year job growth slowed to 6.4 percent,

down from the peak achieved during the third quarter of '96.

- Arizona’s manufacturing industry grew by 1,000 over the first quarter. As a note, the first quarter '98 figures showed an average increase of 2,600 jobs—the strongest first-quarter gains since 1984. For the second quarter, manufacturing job growth slowed to five-tenths of a percentage point. Durable- and nondurable-goods manufacturing each showed quarterly average gains. In terms of job growth, sector strength existed in machinery and in aircraft and missiles, while weakness came in the metals manufacturing sectors.
- Government averaged a loss of 1,100 jobs in the second quarter. **AET**

— Don Wehbey,
RA Economist

Most Employers to Benefit from UI Tax Cuts

(continued from page 10)

difficult. Data on employers whose employees, or former employees, qualify for the increased MWBA is not readily available.

One way of getting some idea of the impact, however, is to consider a hypothetical employer whose UI tax rate exactly equals its cost rate. The cost rate is benefits charged to an employer taken as a percent of taxable wages.

In this example, it will be assumed that the insured unemployment rate is 1.11 percent (the most recent data available), all benefits charged against the employer will be at the MWBA, and that all claimants receive benefits at the maximum duration of 26 weeks in a benefit year. Since wages are taxed upon the first \$7,000 of an employee's annual salary, a \$185 MWBA is equivalent to a tax rate of 0.76 percent under the assumption that inflow (taxes collected) equals outflow (benefits paid). A \$20 increase in the MWBA to \$205 would increase the tax rate, in this hypothetical situation, by 0.08 of a percentage point.

In reality, not all claimants exhaust their benefit award in a benefit year, not all qualify for the maximum dura-

tion of 26 weeks (which can be as low as 13 weeks), and not all qualify for the MWBA (based on calendar year 1997 data, 39.9 percent of claimants received the MWBA of \$185). Also, the insured unemployment rate is an aggregate number across all employers. Experience with unemployment varies across employers, which, in fact, is the basis for the experience rating system. Employers with few benefits charged against them will have low tax rates; those with many benefit charges will have higher tax rates.

Arizona ranks 48th among all states in its MWBA. A \$205 MWBA would tie Arizona and Missouri at 45th place, assuming other states will not increase their MWBA by the time the \$205 takes effect.

The MWBA of \$185 is 35 percent of the calendar year 1997 Arizona average weekly wage (of all employment and wages subject to the UI Employment Security Law). Twenty eight states have an MWBA that is indexed to at least 50 percent of their average weekly wage. Of western states, those with an index of at least 50 percent are: Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. Of these states, Washington tops out with an index at 70 percent. **AET**

— Stan Gorodenski
RA Economist



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